

WASHINGTON. D.C. – The Ranking Members of the House Committee on Oversight and Government Reform and the House Judiciary Committee sent a letter to President Obama today expressing concern with the Administration's use of "Chicago-style enforcement techniques" to force Chrysler bondholders to comply with their plan for restructuring the company.

"We are also troubled by reports that the White House threatened to destroy the reputation of at least one of the Chrysler bondholders," Issa and Smith wrote. "The reports indicate that Perella Weinberg, which subsequently capitulated to your Administration's demands, 'was directly threatened by the White House and in essence compelled to withdraw its opposition to the deal under threat that the full force of the White House press corps would destroy its reputation if it continued to fight.' These reports, if true, raise disturbing questions about your Administration's willingness to engage in Chicago-style enforcement techniques."

Issa and Smith also underscored the inconsistency in the Administration's preferential treatment of the United Auto workers writing, "You went out of your way to highlight and support the 'sacrifices' of several major financial institutions that hold Chrysler debt...including J.P. Morgan and the other big banks are recipients of taxpayer bailouts themselves, and have a significant incentive to submit to your demands...however, do you believe that J.P. Morgan's 'sacrifice,' which by definition decreases its returns, will improve the bank's ability to lend in capital markets and ultimately repay the American people?"

“Your Administration’s restructuring plan for Chrysler is flawed in other ways as well. The plan would give the United Auto Workers (UAW) retiree-benefit trust a 55% controlling interest in the firm. Most industry observers agree that the UAW is a significant cause of Chrysler’s financial troubles in the first place. The UAW has historically made impractical compensation and benefit demands that have caused dramatic increases in Chrysler’s so-called ‘legacy’ costs, which have crippled the company. Shouldn’t UAW also be expected to ‘sacrifice’? Looking forward, do you really think that rewarding UAW for its behavior by giving it a majority stake in the company will result in better management performance? Or is this deal simply a means of repaying your debt to the UAW and other unions for their support in last year’s election?”

The full text of the letter is provided below:

Dear President Obama:

As Ranking Members of the House Committee on Oversight and Government Reform and the House Judiciary Committee, we are writing to express our concern over the recent actions of your Administration that culminated in Chrysler's bankruptcy filing. We are deeply troubled by your Administration's tactics in strong-arming and subsequently demonizing certain Chrysler bondholders for refusing to comply with your Administration's plan for restructuring the company.

While you criticized some Chrysler bondholders as "speculators" who were "refusing to sacrifice like everyone else," [\[1\]](#) what you did not mention is that Chrysler borrowed and spent the \$6.9 billion that it owes these bondholders. [\[2\]](#) Your Administration offered only \$2 billion to these creditors, who are first in line to get repaid in a bankruptcy proceeding. It is not surprising that they rejected your offer. Indeed, it is perfectly appropriate for them to have done so. The bondholders owe a fiduciary duty to their shareholders to maximize returns on their investments, which rightly precludes them from making "sacrifices" to appease aggressive politicians.

Moreover, the hedge funds and other investment funds that refused your Administration's demands often include pension funds as investors. Thus, the ultimate "sacrifice" that you were demanding may have to come out of the retirement plans of the teachers, firefighters, and police officers who depend on these investments. [\[3\]](#)

We are also troubled by reports that the White House threatened to destroy the reputation of at least one of the Chrysler bondholders. The reports indicate that Perella Weinberg, which subsequently capitulated to your Administration's demands, "was directly threatened by the White House and in essence compelled to withdraw its opposition to the deal under threat that the full force of the White House press corps would destroy its reputation if it continued to fight."

[\[4\]](#)

These reports, if true, raise disturbing questions about your Administration's willingness to engage in Chicago-style enforcement techniques.

You went out of your way to highlight and support the "sacrifices" of several major financial institutions that hold Chrysler debt, including J.P. Morgan, who agreed to reduce their debt to "less than one-third of its face value." [\[5\]](#) Of course, J.P. Morgan and the other big banks are recipients of taxpayer bailouts themselves, and have a significant incentive to submit to your demands, lest you impose other restrictions on their business activities. However, do you believe that J.P. Morgan's "sacrifice," which by definition decreases its returns, will improve the bank's ability to lend in capital markets and ultimately repay the American people?

Your Administration's restructuring plan for Chrysler is flawed in other ways as well. The plan would give the United Auto Workers (UAW) retiree-benefit trust a 55% controlling interest in the firm. [\[6\]](#) Most industry observers agree that the UAW is a significant cause of Chrysler's financial troubles in the first place. The UAW has historically made impractical compensation and benefit demands that have caused dramatic increases in Chrysler's so-called "legacy" costs, which have crippled the company. Shouldn't UAW also be expected to "sacrifice"? Looking forward, do you really think that rewarding UAW for its behavior by giving it a majority stake in the company will result in better management performance? Or is this deal simply a means of repaying your debt to the UAW and other unions for their support in last year's election?

In addition, while you claim that continuing the taxpayer bailout of Chrysler is necessary because the company has a "particular claim on our American identity," [\[7\]](#) the Treasury Department's "fact sheet" on your proposal makes clear that the "Governments of Canada and Ontario will together receive 2% of the equity of the new Chrysler," as well as gain the right to select an independent director of the firm.

[\[8\]](#)

So the purpose of the deal is to force the company to become part of an Italian auto maker (Fiat) through the use of Canadian dollars?

[\[9\]](#)

How does this preserve Chrysler's American identity?

We are also concerned that your Administration's restructuring plan will have a chilling effect on investment throughout the American economy. The *Wall Street Journal* reported that your plan was "sounding alarm bells for those in the business of lending money who worry that the plan could subvert decades of standing legal precedent and investing principles."

[\[10\]](#)

By giving the UAW preference over the rights of secured creditors, you are changing the rules of structural subordination in an unprecedented way. We can find no basis in law for the preference of UAW as a creditor over Chrysler's secured creditors. By undermining established legal principles, you are creating even more uncertainty in capital markets, which will inevitably lead to even more reluctance on the part of investors and businesses to lend. This added uncertainty will deter, rather than encourage, the necessary capital investments that are essential for economic recovery.

Bankruptcy is a painful, but essential, element of our Constitution that has been refined over more than 200 years by legislation and judicial precedent. It has long provided an orderly mechanism to restructure troubled firms. Though we would have preferred to see the restructuring of Chrysler before last December, when \$4 billion in taxpayer money was injected in the company, [\[11\]](#) we hope that the future of Chrysler will now be resolved in accordance with the rule of law in the less politicized environment of a bankruptcy court.

We admire and share your willingness to stand with Chrysler's employees and their families, the company's management and suppliers, and the Americans who own and want to buy Chrysler cars. [\[12\]](#) However, we hope that you will adhere to the rule of law and refrain from further tactics that strong-arm and demonize companies who choose not to accept your proposals. We hope that you will stand with our capitalist system that has allowed millions of Americans to prosper and provides the means for sustained economic recovery.

Sincerely,

Darrell E. Issa

Lamar Smith

Ranking Member

Ranking Member

Committee on Oversight

Committee on the Judiciary

and Government Reform

[1] See "Remarks by the President on the Auto Industry," April 30, 2009. Available at http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-the-Auto-Industry/

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[2] See "Chrysler Goes to Court," *The Wall Street Journal*, May 1, 2009.

[3] As of 2006, the percentage of U.S. corporate defined-benefit pension funds investing in hedge funds was 24% and rapidly rising. See William Klunk, "Pension Funds Investing in Hedge Funds." Congressional Research Service, June 15, 2007.

[4] See Andrew Ross Sorkin, "White House Denies Claims of Threat to Chrysler Creditor," Dealbook, *The New York Times*, May 3, 2009. Available at <http://dealbook.blogs.nytimes.com/2009/05/03/white-house-perella-weinberg-deny-claims-of-threat-to-firm/?hp>

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[5] See note 1, *supra*.

[6] See note 2, *supra*.

[7] See note 1, *supra*.

[8] See "Obama Administration Auto Restructuring Initiative Chrysler-Fiat Alliance," US Department of the Treasury, April 30, 2009. Available at <http://www.treas.gov/press/releases/tg115.htm>

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[9] See Conor Clarke, "Building a Stronger Canadian Auto Industry," *The Atlantic*, April 30, 2009. Available at http://business.theatlantic.com/2009/04/building_a_stronger_canadian_auto_industry.php

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[10] See "U.S. Tactics Spark Worries Over Lenders Rights," *The Wall Street Journal*, May 1, 2009.

[11] See note 2, *supra*.

[12] See note 1, *supra*.